

Migration, Remittances, and the Brain Drain: a Symposium in Memory of Riccardo Faini—an Introduction

Jaime de Melo

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It seems inevitable that international migration will be one of the major challenges of the twenty-first century. Lower transaction and communication costs have already greatly eased the formation of migrant networks and reduced migration costs, for long a deterrent to migration from developing countries to developed countries. Demographics also keep migratory policies near the top of policy agendas in developed countries, where dependency ratios continue to rise. Migratory pressures will also increase as falling dependency ratios in developing countries contribute to the swelling of their labor forces.

Designing immigration policies in industrial countries will be a challenge, especially in the European Union, where negative attitudes toward immigrants from poor, nonEU countries persist.¹ Even if survey results suggest a slightly more favorable attitude toward immigrants from countries that have recently joined the European Union, facing up to renewed migratory pressures is likely to remain a challenge.

To see why, suppose that migratory decisions depend on wage differentials between destination and source regions and on amenities in each region, but that citizens also have a home-country bias in their locational preference and that amenities enter the utility function as a normal good. Then, unless citizens in source countries face a severe liquidity constraint that prevents them from

Jaime de Melo is a professor of economics at the University of Geneva; his email address is demelo@ecopo.unige.ch. The author thanks Céline Carrère, Florence Miguët, Tobias Müller, and André Sapir for their comments.

1. As reported by the European Social Survey in 2002 and 2004, about half those surveyed answered “a few” or “none” to the question of how many immigrants they wanted to see come and live in their country (Jowell and Central Co-ordinating Team 2005). The survey also indicated that immigrants coming from rich EU countries are in general much more welcome than immigrants from poor, non-EU countries.

covering migration costs, with amenities a normal good in the utility function an all-around wage increase that preserves the wage differential between locations will reduce the propensity to migrate. This is so because increasing income for non-liquidity-constrained citizens will increase their demand for local amenities, thereby reducing the propensity to emigrate. In their study of the migration experience of Southern Europeans, Faini and Venturini (1994) found supportive evidence of an inverted U-shaped relation between migration rates and income. This pattern may repeat itself soon following the recent EU enlargement, leaving the European Union and other destination countries that have integrated with “close” neighbors grappling with how to craft immigration policies for “more distant” countries.

For source countries inward remittance flows in 2004, estimated at \$150 billion (Ratha 2005), largely surpass net flows of official development assistance, at \$79.5 billion (World Bank 2006). Remittances from migrants to developed countries should then help to close the developing-country-developed-country divide. Yet even if it is generally the case that remittances help reduce poverty, it is not clear how beneficial remittances are in the long run for physical and human capital formation. Money is fungible, and it is hard to disentangle causality in any positive correlation between migration and remittances on the one hand and investment on the other. Neither is it clear that migration is beneficial to growth because of the brain drain effects associated with the migration of high-skill workers.

Recent and ongoing research at the World Bank and elsewhere (some of it presented in Özden and Schiff 2005) on the effects of migration on source countries and on development in general is starting to fill this gap, aided by new data from household surveys with specific modules on migration and by the construction of detailed databases on the stock of skilled migrants.

This symposium issue of the *World Bank Economic Review* is dedicated to the memory of Riccardo Faini. Riccardo had deeply felt interests in policies that he believed would help make the world a better place for all. He wrote extensively on migration policies, adducing evidence that restrictive trade policies may have increased migration pressures in the past and that supportive aid policies, while benefiting developing countries, may have reduced migration pressures less than expected, especially in relatively poor countries (Faini and Venturini 1993). His enthusiasm led him to play a catalytic role in the policy debate on migration policies. He convened several conferences on the topic, including one that resulted in a volume covering many of the issues currently under debate (Faini, de Melo, and Zimmermann 1999). His continuing interest in the subject is evident from Riccardo’s comments on several articles in this issue.

With colleagues, Riccardo contributed to a better understanding of both the determinants of the decision to migrate and the implications of increased labor mobility on source and destination countries. He was among the first to formally discuss the link between risk aversion and migration in the presence of financial market imperfections. He also produced evidence of a significant correlation

between the location choices of migrants and the necessity of “spatially diversifying” income at the household level (Daveri and Faini 1999).

In the contribution to this symposium (Faini, 2007), Riccardo questions the conventional wisdom that the emigration of high-skill workers leads to relatively higher flows of remittances. Taking inspiration from data showing that skilled migrants stay longer in European countries and have a higher propensity to reunite with close family members in the destination country, he posits an altruistic model in which migrants care more about close relatives than about others to show that a higher skill content of migration will not necessarily bring about an increase in remittances, because of composition effects as reunification with close relatives takes place. As is often the case when testing a micro model with aggregate data, the results are not as sharp as one would wish, but the correlation between the share of skilled migrants and remittance flows is negative and the econometric results suggest that the reunification effect leading to lower remittances might be stronger than the wage effect working in the opposite direction.

In “Are Remittances Insurance?” Yang and Choi (2007) give new evidence of the crucial role of remittances in poor countries. High-income volatility in rural areas combined with the near-absence of insurance markets requires households to find ways to cope with aggregate and household-specific risk. One way is to rely on remittances from overseas. Using panel data for the Philippines, Yang and Choi resolve the problem that income and remittances are jointly determined by exploiting the exogeneity of rainfall shocks that affect household incomes. They estimate that 60 percent of the shortfall in income resulting from aggregate income shocks is compensated for by remittances from overseas. Their econometric strategy includes accurate checks confirming the validity of weather events as instruments for changes in domestic income. Rainfall shocks are shown to be uncorrelated with changes in domestic labor supply or with heterogeneous exchange rates shocks experienced by households during the 1997 Asian financial crisis. These results provide fresh justification for policies facilitating international migration and easing remittance flows. Further research is needed to understand whether remittances are also an effective strategy for coping with idiosyncratic income shocks.

On a less optimistic note, the contributions by Docquier, Lohest, and Marfouk (2007) and by Beine, Docquier, and Rapoport (2007) provide evidence that small, poor, and often isolated countries are subject to important brain-drain effects, adding to their already high vulnerability. Even after modifying the common definition of brain drain (migrants with a post-secondary education) to include only skilled emigrants over the age of 22 when they left their country (so as to not attribute skill formation to the source country that is acquired in the destination country), Beine, Docquier, and Rapoport find staggeringly high emigration rates of skilled labor—reaching 80 percent in the small island economies of the Caribbean and around 50 percent for several countries in sub-Saharan Africa.

Moreover, in their detailed analysis of bilateral flows of skilled migrants to Organisation for Economic Co-operation and Development countries, Docquier, Lohest, and Marfouk find that an increase in the education level of natives generates a less than proportional increase in the education level of emigrants. Their estimates indicate that the lower the proportion of educated people in source countries, the higher the brain drain; brain drain rates also increase with the degree of political instability and of fractionalization in source countries. These findings suggest that in sub-Saharan Africa, where schooling rates are relatively low and the prevalence of political instability and of religious and ethnic cleavages is high, policies aimed at increasing education and improving the sociopolitical environment are likely to reduce brain drain.

Combining more accurate estimates of brain drain with estimates of subsidies to higher education in source countries should help in devising more appropriate policies for higher education in source countries. More reliable estimates should also help in devising burden-sharing policies between destination and source countries.

May this symposium contribute to the design of the “win-win” migration policies that Riccardo hoped his work would help to build!

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